

Commission of the
European Communities

Directorate-General
for Economic
and Financial Affairs

EUROPEAN ECONOMY

Supplement — Series A

No 3 — March 1979

Recent economic trends

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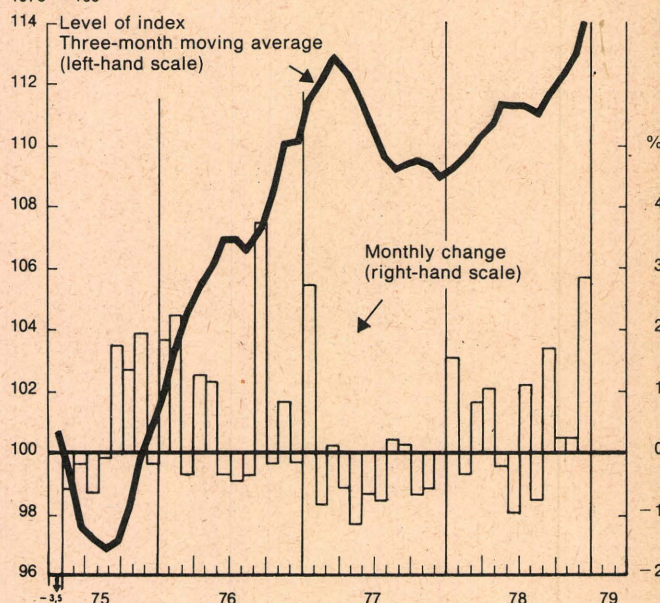
The recovery in economic activity and obstacles encountered. — At the turn of the year, the underlying improvement in the economic situation in the Community, first discernible more than twelve months earlier, was still under way, as is shown by the sharp expansion in industrial production last December. Nonetheless, the recovery was hampered in January by the severe winter weather, by localized strikes and by a speculative surge in world prices of raw materials, notably oil. While these restraining influences do not yet show up in the industrial output figures at present available, they are already affecting the trend of other variables such as consumer prices and the trade balance.

Renewed buoyancy of industrial production. — At the end of last year, industrial production in the Community was expanding briskly. In seasonally adjusted terms, its level in December was as much as 2,8% up on a month earlier (see Table 1). This spurt had an appreciable effect on the outturn for the year as a whole, producing an aggregate growth rate in 1978 of 2,3% as compared with a figure of not more than 1,8% in the first eleven months of the year. The vigorous trend of industrial production in the Community in December can be put down to buoyant growth in five countries of the Community (three of the large Member States, namely the Federal Republic of Germany, France and the United Kingdom, plus Belgium and the Netherlands). In Denmark and Italy, on the other hand, where industrial production had expanded sharply in previous months, it contracted appreciably. Comparing the figures for December 1978 with those for December 1977, industrial production rose by 11,7% in Italy, 7,8% in France, 7,7% in the Federal Republic of Germany and, among the smaller countries, by 13,0% in Belgium, 8,5% in Luxembourg and 8,2% in Ireland. The rate of growth was much less buoyant in the United Kingdom (4,9%), the Netherlands (3,6%) and particularly Denmark (0,9%). Taking the average for the Community as a whole, industrial production grew by 7,1% between December 1977 and December 1978.

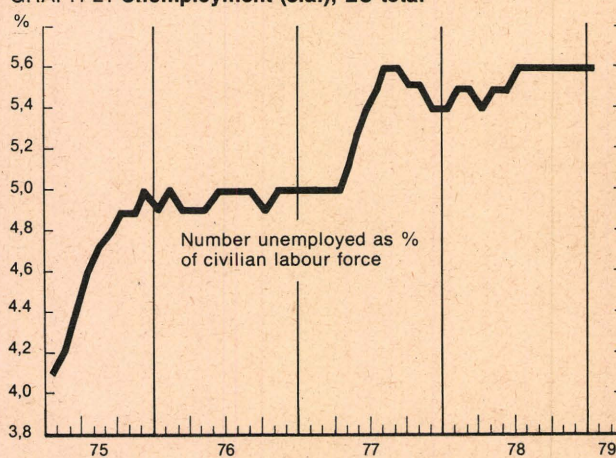
Unemployment rate unchanged. — In January, the seasonally adjusted unemployment rate for the Community as a whole remained stationary at 5,6% (see Graph 2 and Table 2). This overall stability, which has been noted since July, was also evident in five Member States, namely the Federal Republic of Germany, France, the United Kingdom, the Netherlands and Belgium. By contrast, the unemployment rate fell in Italy and Ireland while it showed an increase over the previous month in Denmark and Luxembourg. The average level of unemployment in the Community was slightly higher than in January 1978. In France, the number of people out of work was considerably up on a year earlier. The Federal Republic of Germany, the United Kingdom, Ireland and Luxembourg, on the other hand, recorded a fall in unemployment, year on year.

Sharper rise in prices. — Measured by the index of consumer prices, inflation in the Community gathered pace in January. After successive monthly increases of some ½% in the second half of 1978 (see Table 3), the Community index showed a 1,1% increase over December. This acceleration is attributable partly to the normal

GRAPH 1: Industrial production (s.a.), EC total
1975 = 100



GRAPH 2: Unemployment (s.a.), EC total



impact of seasonal factors. However, the severe winter weather led to an exceptional increase in vegetable prices. In addition, the higher oil prices have already begun to be reflected in the price of petrol and in heating costs in some Member States while the rise in energy costs in industry will work through into consumer prices only after a lag. Lastly, the increase in rents has also helped to refuel inflation. The six-month increase in the seasonally adjusted index of consumer prices in the Community, which had remained virtually stationary throughout the second half of 1978, at a level of just over 7,5%, held steady at 7,7% in January (see Graph 3). In the different Member States, the changes in the consumer price index in January ranged from a fall of 0,1% in the Netherlands to an increase of 1,9% in Italy.

Growth in the money supply¹ (Twelve-month change, in %)

	1975	1976	1977	1978	1978			
	Dec.	Dec.	Dec.	Dec.	March	June	Sept.	Dec.
DK	25,5	11,3	9,8	6,7	7,5	7,5	6,3	6,7
D	8,5	8,4	11,1	11,0	9,8	10,6	10,8	11,0
F	15,9	12,8	13,9	13,7 ²	13,3	14,4	13,4	13,7 ²
IRL	20,7	14,3	16,3	20,6 ²	15,7	16,9	22,0	20,6 ²
I	23,5	21,1	21,9	24,0	22,5	22,6	23,5	24,0
NL	5,7	22,7	3,4	8,0	-0,9	3,6	5,3	8,0
B	17,2	13,4	9,9	9,0	10,1	10,6	11,0	9,0
UK	6,6	8,9	10,1	13,2	15,4	15,6	14,3	13,2
EC	12,7	11,1	12,5	13,1	12,5	13,2	13,1	13,1

¹ DK, F, I, NL, B: M₂; D, IRL, UK: M₃.

² November/November.

Source: Commission's departments.

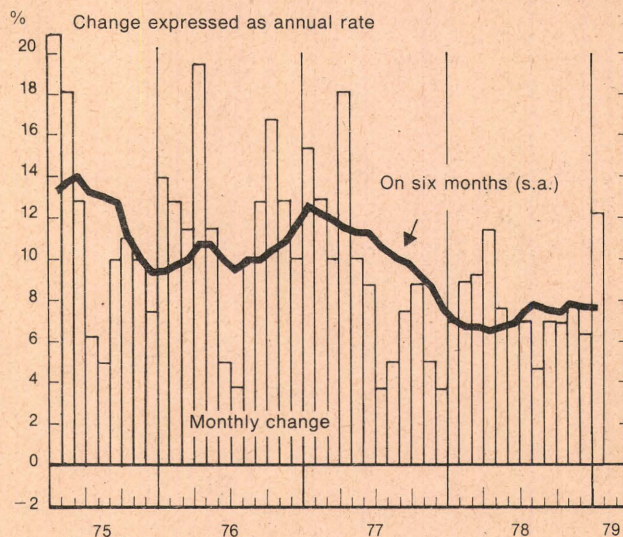
Moderate growth in money supply in 1978. — The money supply in the Community grew at a slightly faster rate in 1978 than in the two previous years. On a year-to-year basis and weighted according to the relative size of the different Member States' gross domestic product, the money supply broadly defined (M₂ or M₃) expanded by some 13% in 1978, as against 12,5% in 1977 and 11,1% in 1976 (see Table above). This average figure for 1978 was 2 percentage points higher than the nominal rate of growth in the Community's gross domestic product. The rate of monetary expansion in the Community as a whole held relatively steady in 1978. As for the situation in the largest Member States, the rate accelerated somewhat in the Federal Republic of Germany and Italy while in France and the United Kingdom it slowed down in the second half of the year. Apart from Italy and Ireland, which both recorded annual rates of monetary expansion easily in excess of the Community average, the figures for the Member States ranged between 6½% and 13½%.

Worsening trade balance. — In January, the Community's trade balance closed with an estimated deficit of 400 million EUA, the heaviest shortfall since July last year. This deficit followed an average monthly surplus of more than 100 million EUA in the fourth quarter of 1978 (see Graph 4 and Table 4). The deterioration is attributable mainly to a contraction in the trade surplus in the Federal Republic of Germany. The trade deficit in France remained unchanged in January while the trade deficit in the United Kingdom narrowed somewhat as compared with the previous month. Generally speaking, the firmer trend of economic activity since the autumn has led to a faster expansion in the volume of Community imports. Moreover, the marked increase in crude oil prices since December and the rapid rise in the prices of certain industrial raw materials have begun to push up import costs. On the other hand, Community exports to markets elsewhere in Europe and to Japan would seem to be the only ones still expanding at an appreciable rate.

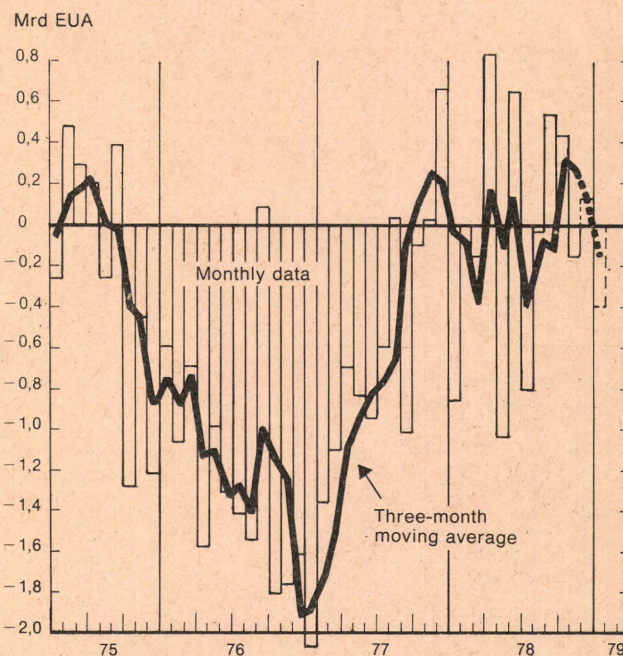
Dollar stability. — In February, the dollar's performance against the EUA stabilized, on a monthly basis, for the first time since the measures to stem the dollar's decline were brought into force last November. There was actually a slight appreciation of 0,7% against the EUA (see Graph 5 and Table 5). The dollar had climbed even higher in the first week of February but had then fallen back and held steady during the last two weeks of the month. Between the beginning of November, when the support measures had been announced, and the end of February, the dollar appreciated by 4% against the EUA. The fluctuations of Community currencies against the EUA and against each other were insignificant in February. Since they moved in line with the dollar, the lira and sterling gained a little against the EUA, taking the monthly average. For the lira, this was the first improvement since June 1978.

5 March 1979.

GRAPH 3: Consumer prices, EC total



GRAPH 4: Trade balance (s.a.), EC total



GRAPH 5: Value of EUA against USD

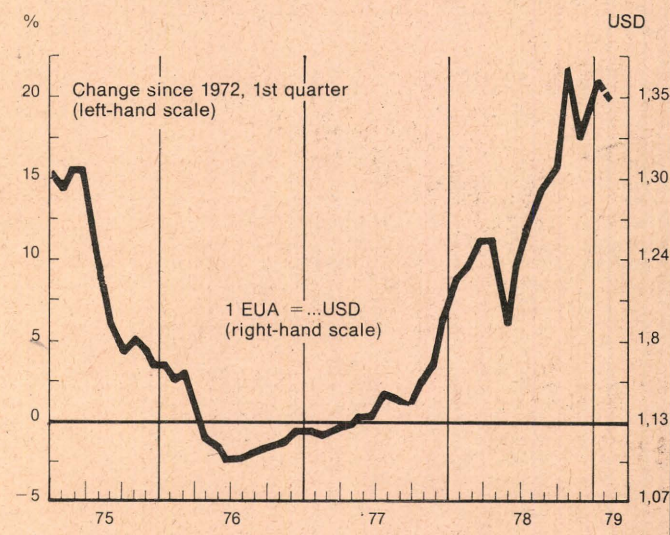


TABLE 1: Industrial production¹ - Percentage change on preceding period (s.a.)

	Percentage change on preceding period (day)																	Change over 12 months %3
	1974	1975	1976	1977	1978	1977	1978				1978							
						IV	I	II	III	IV	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
DK	-1,1	- 5,7	9,2	0,8	2,1	-1,6	-2,9	7,2	-2,1	2,8	-0,1	-6,2	8,6	4,1	2,6	2,7	-3,9	0,9
D	-1,1	- 6,2	7,4	2,8	2,4	0,9	0	0	2,6	1,7	2,6	1,7	-0,8	1,7	0	0	2,5	7,7
F	2,5	- 8,9	9,7	1,6	1,5	-1,6	1,9	2,1	-0,8	2,1	-1,6	0,8	0	1,6	0	0,8	1,5	7,8
IRL	2,9	- 6,1	9,0	8,1	12,1 ²	3,5	2,1	3,0	-1,3	:	4,7	-1,6	-9,0	10,7	0,9	:	:	8,2
I	3,9	- 8,8	11,6	0	1,9	-1,8	3,5	-0,4	0,3	5,7	1,1	-0,6	-0,6	1,8	5,0	0,4	-1,6	11,7
NL	5,0	- 4,8	5,9	0,8	1,3	1,9	0	-0,3	0,8	2,1	4,1	1,6	-3,8	2,4	0	0,8	3,9	3,6
B	4,0	- 9,8	7,7	0,4	2,1	-0,5	-1,0	1,1	1,8	4,8	-3,5	3,6	-1,9	5,5	0,6	-1,1	7,4	13,0
L	3,5	-21,9	6,4	0,5	5,0	0,5	6,2	-1,7	0,7	1,3	-1,0	1,3	3,3	8,1	7,1	0	0,7	8,5
UK	-2,6	- 4,8	2,7	4,6	3,1	-0,9	1,3	3,2	0,5	-1,3	1,5	0,2	0,3	-1,2	-1,6	0,8	1,8	4,9
EC	0,6	- 6,6	7,3	2,2	2,3	-0,6	1,9	0,5	0,7	2,0	-1,0	1,2	-0,8	1,8	0,2	0,1	2,8	7,1

TABLE 2: Unemployment rate - Number of unemployed as % of civilian labour force (s.a.)

	1974	1975	1976	1977	1978	1977	1978				1978						1979	Change over 12 months %
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
DK	2,0	4,6	4,7	5,8	6,6	5,9	6,1	6,6	6,7	6,6	6,5	6,7	6,6	6,7	6,6	6,6	6,7	4,7
D	2,2	4,2	4,1	4,0	3,9	3,9	3,9	3,9	3,9	3,7	3,9	4,0	3,9	3,8	3,8	3,7	3,7	-3,5
F	2,3	3,9	4,3	4,9	5,3	5,0	4,9	5,1	5,5	5,7	5,4	5,5	5,6	5,7	5,7	5,8	5,8	20,4
IRL	6,3	8,7	9,8	9,7	8,9	9,5	9,2	8,9	8,6	8,5	8,7	8,7	8,5	8,6	8,6	8,4	8,3	-8,6
I	4,9	5,3	5,6	6,4	7,0	6,9	7,0	7,0	7,0	7,3	7,0	7,0	7,1	7,2	7,3	7,4	7,1	2,9
NL	2,9	4,1	4,4	4,3	4,3	4,4	4,1	4,2	4,4	4,4	4,3	4,4	4,5	4,4	4,4	4,3	4,3	1,9
B	3,2	5,3	6,8	7,8	8,4	8,2	8,2	8,4	8,4	8,5	8,2	8,5	8,5	8,5	8,5	8,5	8,5	3,0
L	0,0	0,2	0,3	0,6	0,8	0,7	0,9	0,8	0,9	0,7	0,9	0,9	0,9	0,7	0,7	0,7	0,8	-9,7
UK	2,4	3,8	5,3	5,7	5,7	5,8	5,8	5,7	5,7	5,5	5,8	5,7	5,6	5,6	5,5	5,4	5,4	-6,0
EC	2,9	4,4	4,9	5,3	5,5	5,5	5,5	5,5	5,6	5,6	5,6	5,6	5,6	5,6	5,6	5,6	5,6	2,4

TABLE 3: Consumer price index - Percentage change on preceding period

	1974	1975	1976	1977	1978	1977	1978				1978						1979	Change over 12 months %
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
DK	15,3	9,6	9,0	11,1	10,0	5,2	1,3	1,6	1,2	2,9	0,2	0,4	0,7	1,9	0,6	0,1	(0)	(6,7)
D	7,0	5,9	4,6	3,9	2,6	0,2	1,3	0,9	0	0,1	0	-0,3	-0,3	0	0,3	0,4	1,1	2,9
F	13,6	11,7	9,6	9,5	9,3	1,9	1,6	2,9	2,7	2,1	1,2	0,6	0,6	0,9	0,5	0,5	0,9	10,2
IRL	17,0	20,9	17,9	13,7	7,7	1,7	1,4	1,8	3,1	1,5	1,0	1,0	0,5	0,5	:	:	:	8,0
I	19,2	17,0	16,7	18,5	12,1	3,3	2,6	3,1	2,4	3,0	0,6	0,5	1,6	0,9	1,0	0,5	1,9	12,8
NL	9,8	9,9	8,9	6,8	4,2	1,3	0,1	2,0	0,7	1,1	0,2	0,4	0,8	0,4	0	-0,1	(-0,2)	(4,3)
B	12,7	12,8	9,2	7,1	4,5	1,2	1,3	0,5	1,1	1,0	0,6	0,5	0,4	0,2	0,3	0,4	0,6	3,9
L	9,5	10,8	9,8	6,7	3,1	0,4	0,7	1,0	0,5	0,9	0,2	0,1	0,2	0,6	0,3	0	0,8	3,8
UK	16,0	24,2	16,5	15,9	8,2	1,5	1,7	2,7	1,8	1,7	0,5	0,7	0,4	0,4	0,8	0,8	1,5	9,4
EC	12,7	13,3	10,9	10,8	7,5	1,7	1,6	2,2	1,6	1,6	0,6	0,4	0,6	0,6	0,6	0,5	(1,1)	(8,0)

TABLE 4: Trade balance - fob/cif, million EUA (s.a.)

	1974	1975	1976	1977	1978	1977	1978				1978						1979	Change over 12 months ³
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
DK	-1 860	-1 357	-2 949	-2 775	-2 294	-569	-604	-472	-542	-607	-188	-202	-151	-220	-215	-172	-196	32
D	16 227	12 234	12 301	14 520	15 967	4 281	3 458	4 100	3 982	4 380	892	1 529	1 561	1 607	1 431	1 342	913	-76
F	-5 804	-1 704	-7 672	-6 128	-4 081	-1 024	-1 285	-1 091	-591	-972	-111	-356	-124	-224	-277	-471	-464	161
IRL	-986	-468	-786	-875	-1 130	-191	-198	-311	-310	-309	-91	-134	-86	-140	-113	-57	-168	-88
I	-8 965	-2 895	-5 772	-2 239	(225)	-442	-16	323	-419	:	-560	75	66	106	103	:	:	-57
NL	-149	136	116	-1 680	-2 199	-271	-174	-517	-615	-852	-230	-278	-107	-295	-434	-123	:	-138
B	-1 338	-1 615	-2 224	-2 242	(-1 800)	462	-670	-417	-444	:	-87	-255	-102	-111	-119	:	:	109
UK	-13 174	-7 793	-8 852	-5 516	-5 588	-869	-1 432	-1 197	-1 413	-1 224	-388	-547	-478	-330	-551	-342	-308	310
EC	-16 049	-3 461	-15 838	-6 961	(-950)	452	-1 157	390	-262	(334)	-798	-9	545	392	-158	(100)	(-400)	(470)
EC Trade balance fob/fob (in '000 million EUA)																		
	:	(7,4)	(-1,5)	(6,9)	(12,9)	(5,1)	(3,3)	(5,4)	:	:	:	:	:	:	:	:	:	:
EC Balance of payments on current account (in '000 million EUA)																		
	:	(1,6)	(-5,1)	(2,1)	(10,6)	(3,6)	(1,3)	(4,0)	:	:	:	:	:	:	:	:	:	:

TABLE 5: Value of EUA - 1 European unit of account = ... units of national currency

	1974	1975	1976	1977	1978	1977	1978				1978					1979		Change over 12 months %
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	
DKR	7,26	7,12	6,76	6,86	7,02	7,11	7,03	6,98	7,07	6,99	7,09	7,06	7,00	6,97	7,01	6,96	6,96	-0,7
DM	3,08	3,05	2,82	2,65	2,56	2,61	2,57	2,57	2,57	2,52	2,57	2,56	2,52	2,52	2,51	2,51	2,51	-2,0
FF	5,73	5,32	5,34	5,61	5,74	5,67	5,88	5,69	5,62	5,76	5,61	5,67	5,75	5,77	5,77	5,76	5,78	-3,3
LIT	776	810	930	1 007	1 081	1 030	1 067	1 065	1 074	1 116	1 077	1 078	1 108	1 116	1 126	1 137	1 136	7,0
BFL	3,20	3,13	2,96	2,80	2,75	2,81	2,75	2,75	2,79	2,79	2,79	2,78	2,74	2,73	2,72	2,71	2,71	-1,3
BFR/LFR	46,40	45,57	43,17	40,88	40,06	40,83	39,92	40,11	40,53	39,69	40,51	40,35	39,69	39,61	39,78	39,59	39,56	-0,8
UKL	0,510	0,560	0,622	0,654	0,664	0,647	0,642	0,673	0,664	0,677	0,664	0,664	0,681	0,676	0,673	0,677	0,675	6,0
USD	1,19	1,24	1,12	1,14	1,27	1,17	1,24	1,24	1,28	1,34	1,29	1,30	1,37	1,32	1,34	1,36	1,35	9,5

Source: Eurostat unless otherwise stated.

¹ National sources, except in the cases of the Community, Denmark, Ireland, Belgium and Luxembourg. Because of differences in the methods of seasonal adjustment, the change in the EC index, adjusted by Eurostat and given in Table 1, may differ from the change in the EC index obtained by aggregation of the national indices. The figures are corrected for the number of working days. Excluding building and construction and, in the case of France, the foodstuffs and beverages industry.

² January-October.

³ For the most recent figure given in the table.

Note: (s.a.) = seasonally adjusted.

: = not available.

() = estimate.

Major economic policy measures — February 1979

Community (EC)

19.2 The Council held an exchange of views on the economic situation in the Community. It agreed on the statement which the President would make on behalf of the Community at the next meeting of the International Monetary Fund Interim Committee, scheduled for 7 March next in Washington. An initial exchange of views was also held on the Commission's proposal for a Regulation relating to interest rate subsidies for certain loans for structural purposes. This instrument was envisaged by the European Council on 5 December 1978 in its Resolution on the establishment of the European Monetary System.

Denmark (DK)

6.2 Acting under Article 73 (2) of the EEC Treaty, the Danish Government decided temporarily to stop sales to non-residents of government bonds issued since 1975. The decision follows upon foreign purchases in January amounting to some DKR 800 million.

16.2 The existing six-month freeze on prices and wages expiring on 26 February was prolonged until 15 April in view of the wage negotiations in progress.

26.2 A first attempt to mediate between the two sides of industry with a view to revising the biennial wage agreement proved abortive.

Federal Republic of Germany (D)

26.1 Employers and unions in the metal-working industry in North Rhine-Westphalia agreed to take over the main features of the agreement reached in the steel industry. This means that most wage and salary earners in the metal-working industry will receive a pay increase of 4% for a period of fifteen months and that annual holidays will be increased to six weeks a year. Introduction of the 35-hour working week was postponed until 1985. These measures entail an extra cost estimated at 5%, the same as in the steel industry.

France (F)

9.2 The Minister for Industry announced that total oil imports in 1979 were not to exceed the equivalent of FF 58 000 million.

16.2 The flat-rate amount payable by employers taking on immigrant workers was raised from FF 1 500 to FF 2 000 (from FF 1 350 to FF 2 000 for domestic staff).

24.2 The measures to help exports were supplemented by various arrangements relating in particular to capital goods (export financing, exchange rate guarantees, etc.).

Ireland (IRL)

7.2 The Minister for Finance presented his budget to Parliament. The major features were:

- an increase in excise duties to raise IRL 37,7 million;
- a 2% levy on agricultural production (revenue IRL 16 million);
- social welfare benefit increases (cost IRL 32,1 million);

- increase in children's allowances (cost IRL 11,7 million);
- adjustments in income tax allowances (cost IRL 27,2 million);
- continuation of stock relief for companies (cost IRL 5 million);
- job-creation expenditure of IRL 20 million.

The borrowing requirement of central government will fall from 13% to 10½% of GNP.

Italy (I)

31.1 So as to take account of the Fourth Directive on the harmonization of VAT, a Presidential Decree was issued under which medical fees and interest collected on certain types of loans were exempted from VAT with effect from 1 April 1979.

6.2 Large companies are to be placed under the supervision of one or more auditors if their indebtedness exceeds certain limits.

Netherlands (NL)

1.2 A system of automatic authorization for exports of oil and petroleum products, designed to ensure more rapid information on the tonnages exported, was introduced with effect from 1 February. The system does not apply to light products, such as petrol and naptha.

12.2 According to preliminary information, the ceiling controls on credit were extended to 31 December 1979. The increase in total short-term lending by the financial intermediaries, from the fourth quarter of 1978 to the fourth quarter of 1979, must not exceed 9%. For the major banks, the limit will be 8%, the remaining percentage point being set aside for any additional increase in lending by the smaller banks.

Belgium (B)

1.2 The Banque Nationale cut the interest rate on ordinary advances under ceiling B from 8% to 7,5%.

2.2 The financial intermediaries decided to lower their lending rates by 0,5 point. The interest rate on cash credit thus fell to 9% and the rate for discount and acceptance credit to 8,5%.

22.2 The interest rate for discount and acceptance credit was lowered by 0,25 point.

Luxembourg (L)

None.

United Kingdom (UK)

8.2 Minimum lending rate was increased from 12½% to 14%.

14.2 The Government and the Trades Union Congress announced a new joint agreement, the main points of which were: 'guidance to affiliated unions on the conduct of industrial relations; participation together with the employers' organization, in an annual national assessment of the country's economic prospects, before Easter each year; a target inflation rate of 5% to be reached in three years'.

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ISSN 0379-2056

Catalogue number: CB-AS-79-003-EN-C